

23540

0138

23590



Directorate of
Intelligence

Confidential

CIA|SOV-----|SEP-90-002-----

m

Quarterly Bulletin on Soviet Economic Performance

First Quarter 1990

CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

Confidential

SOVSEP 90-002
May 1990
Cop

0554

Warning Notice

**Intelligence Sources
or Methods Involved
(WNINTEL)**

**National Security
Information**

**Unauthorized Disclosure
Subject to Criminal Sanctions**

Dissemination Control Abbreviations	NOFORN (NF)	Not releasable to foreign nationals
	NOCONTRACT (NC)	Not releasable to contractors or contractor/consultants
	PROPIN (PR)	Caution—proprietary information involved
	ORCON (OC)	Dissemination and extraction of information controlled by originator
	REL...	This information has been authorized for release to...
	WN	WNINTEL—Intelligence sources or methods involved
	A microfiche copy of this document is available from OIR/ DLB (482-7177); printed copies from CPAS/IMC (482-5203); or AIM request to userid CPASIMC. Regular receipt of DI reports can be arranged through CPAS/IMC.	

Classified t
Declassify: OADR
Derived from multiple sources

All material on this page
is Unclassified.

0140



Directorate of
Intelligence

~~Confidential~~

Quarterly Bulletin on Soviet Economic Performance

First Quarter 1990

Note: This publication was formerly titled
Quarterly Bulletin on Soviet Economic Growth.

This bulletin was prepared by the
Office of Soviet Analysis, with
contributions from the
and the
of SOVA

Comments and queries are welcome and may be
directed to
SOVA, or

Reverse Blank

~~Confidential~~
SOVSEP 90-002
May 1990

0141

Economic Disarray Continues

OVERVIEW

Government Remedies Failing

The economy continued to stumble badly during the first quarter, worsening the problems of a leadership already struggling with Baltic republic separatism and widespread political unrest. Overall production fell from January through March, as compared with the same period last year; transportation and distribution breakdowns compounded the decline in production; and efforts to stem the growth of incomes and the money supply proved largely ineffective.

The leadership, now apparently convinced that last December's program is not working, is preparing a new game plan. However, Gorbachev has made it clear that radical and painful measures, such as major price increases, will have to await the enactment of measures to protect the poor. The Kremlin has also recognized that defense conversion—once heralded as a source of quick help for the civilian economy—will be a long and costly process.

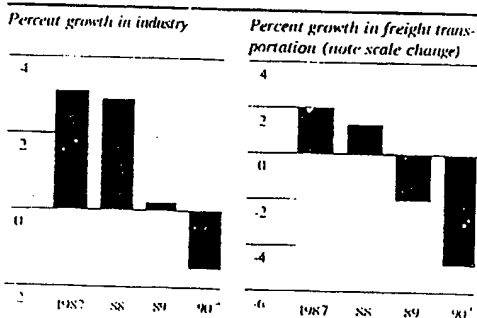
The economy will feel the effects of the poor first quarter for the remainder of the year. Problems experienced so far in basic industries will hamper production in consumer goods, housing, and other sectors. The Lithuanian blockade is likely to hurt second-quarter performance, and new outbreaks of ethnic unrest or labor strikes, which many Soviets are predicting, could deal further blows to the economy.

INDUSTRY

Struggling

Industry—the traditional mainstay of the Soviet economy—bears much of the blame for the bleak first quarter. For the first time in decades, Moscow has reported a quarterly decline in production. According to official Soviet statistics, output fell by 1.2 percent, as compared with the period January-March 1989. In the energy sector, oil output dropped for the fifth consecutive quarter, coal production continued to fall, and growth in electricity output remained sluggish. The story for the quarter was much the same in the basic materials industries—output was down markedly in chemicals, construction materials, and ferrous metals.

The decline in industrial production reflected the impact of ethnic disturbances and slackening labor discipline, as well as the difficulty of shifting resources from defense and heavy industry to consumer goods. As a result of the dropoff in industrial output—and of transportation bottlenecks that exacerbated this decline—freight shipments fell by about 5 percent from last year's first-quarter level. In addition, enterprises frequently ignored customers assigned to them by the state and bartered their output with other firms to obtain badly needed goods. Meanwhile, local and regional authorities continued to close down facilities for environmental reasons, sacrificing short-term economic growth in the hope of improving the quality of life in the long term.



First-quarter 1990 compared with first quarter 1989.

CONSUMER

Unfulfilled Promises

The across-the-board boost in production of consumer goods that the leadership was counting on to stabilize consumer markets failed to materialize in the first quarter. Although output of consumer durables such as VCRs and cars increased markedly, production of everyday basics—primarily food and light industry products—stagnated and in some cases declined. Moreover, higher sales of alcohol and imported goods accounted for almost two-thirds of the increase in consumer purchases in state stores.

Increasing public dissatisfaction with the state of food supplies is probably especially worrisome from Moscow's perspective. Output of a number of essential food products, including meat, eggs, and canned fruits and vegetables, declined during the quarter. The government also experienced increased difficulties in purchasing, transporting, and distributing foodstuffs; and interregional food trade faced mounting obstacles, as increasing numbers of local officials and farm managers refused to ship scarce food supplies beyond their borders.

Efforts to stem financial imbalances in the economy proved ineffective: growth in money and incomes continued unabated, and budget revenues failed to keep up with expenditures. Inflationary pressures stayed strong, store shelves remained empty, and the ruble continued to lose value.

FOREIGN TRADE

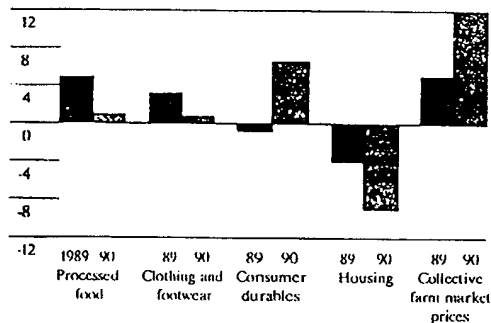
Deteriorating Financial Trends

Hard currency woes are adding to Moscow's domestic economic problems. With imports of consumer goods up over the first quarter of last year and export revenues lagging, especially for oil, prospects for reducing the trade deficit this year are poor.

A more serious development during the quarter was the rise in complaints about Soviet delays in paying for imported goods, including oil and gas equipment, chemicals, grain, and machinery. Bureaucratic problems and the inexperience of traders new to the market appeared to be responsible for the bulk of the arrears. Some Soviet enterprises have run up debts as part of their newly won trading rights but have found central authorities slow to bail them out when they have been unable to generate hard currency revenues to repay the loans. Bureaucratic infighting and delays have also denied some enterprises access to hard currency funds to which they are entitled.

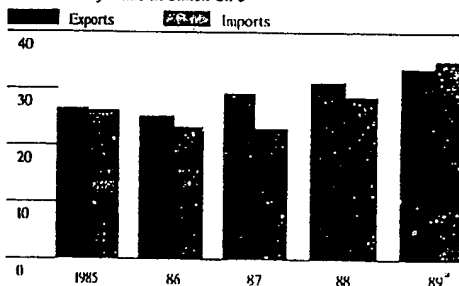
Western lenders are responding by reducing the USSR's credit rating and raising interest rates on loans—moves reinforced by bankers' concerns about Soviet domestic economic and political instability. Moscow, for its part, has released plans to hold down import growth to reduce the level of its indebtedness.

Percent growth of key consumer welfare indicators*



* First quarter 1990 compared with first-quarter 1989.

Hard currency trade in billion US \$



* Preliminary estimates.

0143

Confidential

REFORM

Progress But . . .

The much-touted defense industries conversion program began to show some payoff during the first quarter as the sector's output of consumer goods grew by an estimated 8 percent over the same period last year. Nonetheless, conversion continues to be plagued by problems; there were reports of defense-industrial plants ignoring orders for civil goods or producing equipment totally unsuited for the intended customer. Some of these problems reportedly are the result of enterprise foot-dragging. Even defense plants with managers committed to the conversion program's goals, however, frequently failed to achieve their goals because of their lack of familiarity with the new civil product lines and the difficulty of obtaining material needed for the manufacture of both new and traditional products.

The leadership has begun to address head-on the costs and the complexity of conversion. Details of the long-awaited national conversion plan for the period 1991-95 were released in March. The plan calls for reductions in the production of military hardware, expansion of output in 10 priority civil areas, and increased transfer of defense-related scientific and technological achievements to civil applications. Funds have been set aside for 1990 for new investment and to cover the costs of workers' transition to civil production. The Soviets are now claiming that total costs for the program will be high. A Gosplan official alleges that 40 billion rubles—almost as much as the Soviets spent modernizing civil machinery during 1986-90—will be needed for investment alone during 1991-95.

A Conversion Nightmare

The Soviet journal *Trud* reports the disaster that befell a distinguished defense industry firm when it decided to design and produce 20 "wonderfully compact" automated sausage-making machines. It sold the idea to food industry customers, who assembled for a demonstration. Everyone was impressed as the machinery began spitting out sausages "with the speed of a machinegun burst." Upon inspection, however, the customers discovered that the sausages were green.

New Game Plan

Alarmed by the poor performance of the economy, the leadership has reassessed the reform program adopted last December and has indicated its intention to accelerate the transition to a "regulated market." Reforms that were to wait until 1993 will begin to be implemented next year. Gorbachev, however, has made clear he will not introduce reforms that will raise retail prices or increase unemployment without first constructing safety nets to protect the poor.

This evident concern about public reaction has disheartened some reform economists, who fear it will prevent the adoption of necessary but painful measures. The effectiveness of the new strategy could also be undermined by implementing legislation—still in various stages of review—that was drafted by officials with vested interests in the existing system. Reformers hope Gorbachev will use his newly acquired presidential powers to overcome this bureaucratic resistance and give new impetus to the program.

Proposed Implementing Legislation for Economic Reform

Laws

Freedom of Economic Activity and the Development of Entrepreneurship

Price Formation

Fundamentals of Antimonopoly Legislation

Income Indexation Geared to Consumer Price

Increases

Banking

Decrees

Changes in the System of Planning the Development of the Economy

Social Protection of the Poor During the Transition to a Market Economy

Personal and Corporate Taxes

Credit Reform

Organization of the Securities Market

Denationalizing the Economy

Replacing the State Orders System

Implementing New Wholesale Prices for Energy

Products and Metals

Programs for Demonopolizing the Economy

Confidential

SOV SEP 90-001
May 1990